

BILL # HB 2653

SPONSOR: Reagan

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TITLE: tax credit; research and development

STATUS: As Amended by House COM

FISCAL ANALYSIS

Description

The bill would change the formula for the amount of research and development (R&D) tax credit (both corporate and individual) that can be claimed. The credit is based on the amount of the taxpayer's qualifying research expenses in Arizona. The current formula calculates the income tax credit as 20% of the first \$2.5 million in qualifying expenses plus 11% of the amount exceeding \$2.5 million. The bill would change the percentage of credited expenses for the first \$2.5 million from 20% to 22% and from 11% to 13% for the amount above \$2.5 million for the period between December 31, 2008 and December 31, 2009. These credits would further increase on January 1, 2010 to 24% for the first \$2.5 million and 15% for the amount above \$2.5 million.

Estimated Impact

This bill would reduce corporate and individual income tax revenue to the General Fund based on the revised formula for calculating the tax credit. JLBC Staff, however, does not have access to the taxpayer data needed to derive an independent estimate of the impact. The Department of Revenue (DOR) maintains taxpayer records and has developed an estimate of the draft bill's impact. Using the most recent data from tax year 2005, DOR estimates the draft bill would result in a loss of \$(5.7) million in FY 2010 and \$(11.2) million in FY 2011 and each year thereafter.

While the bill would lead to a direct reduction in corporate and individual tax liabilities, the bill would create a more favorable tax environment. As a result, the bill could generate additional economic activity that would lead to an offsetting increase in tax collections.

Local Government Impact

Each year cities and towns receive an amount equal to 15% of income tax collections from 2 years prior. The reductions in corporate income tax collections would result in a reduction in local government distributions of \$(855,000) in FY 2012 under the phase-in rates. This impact would increase to an estimated loss of \$(1,680,000) in FY 2013 and for each year thereafter.